

TOWN OF HAMILTON
Skagit County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. The Town Of Hamilton Should Refrain From Commingling Private And Public Funds

Our audit identified \$12,022.88 of town expenditures which were paid personally by the mayor and his parents with subsequent requests for reimbursement occurring from one week to three years after the original payment was made. By reimbursing the mayor and his parents instead of paying the vendors directly, the council did not approve these expenditures prior to payment to the vendors.

From December 1991 to May 1993, the mayor's parents expended \$2,130.98 for museum pictures and supplies. These expenditures were reimbursed in September 1993 and July 1995. (See also State Finding 4 regarding inadequate documentation of these expenditures.)

On March 16, 1993, the mayor's mother paid a contractor \$4,817 by personal check for work performed on the town hall and museum. On March 23, 1993, the town issued a check from the town's museum checking account for this amount. The entry in the check register indicated the check was issued to the contractor. However, the check was actually issued to "Cash" and endorsed by the mayor's mother. See also Federal Finding 2 regarding the handling of the museum checking account.

In March 1993, the mayor's mother paid \$3,000 as a down payment on history books. The town made payments on the history books from August 1993 through November 1994. In July 1995, the town reimbursed the mayor's parents for the \$3,000 down payment.

In May and June 1993, the mayor paid \$220.74 for supplies and pictures which were reimbursed in June 1993.

In October 1993, the mayor paid \$1,500 for a fire truck and \$131.25 for state licensing fees. The mayor was reimbursed in November 1993. See also State Finding 4 regarding inadequate documentation.

In August 1994, the mayor had a dumpster delivered to his personal business. In September 1994, the mayor received reimbursement for \$222.91 representing one-half of the dumpster costs. (See also State Finding 4 regarding inadequate documentation.)

The following laws apply:

a. RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments,

which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

- b. RCW 40.16.020 prohibits officers from concealing or falsifying any record or paper appertaining to the officer's office.
- c. RCW 42.20.070 prohibits officers and every other person from knowingly keeping any false account, or making any false entry or erasure in any account.
- d. RCW 42.24.080 states in part:

All claims presented against any county, city, district, or other municipal corporation or political subdivision by persons furnishing material, rendering services or performing labor, or for any other contractual purpose, shall be audited, **before payment**, by an auditing officer . . . (Emphasis added.)

Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation

- e. RCW 35.27.340 states in part:

All demands against a town shall be presented to and audited by the council in accordance with such regulations as they may by ordinance prescribe. Upon allowance of a demand the mayor shall draw a warrant therefor upon the treasurer

By not following established expenditure procedures, the clerk/treasurer and council did not audit and approve these expenditures prior to paying the vendors. In addition, there was no indication the town was made aware of debt incurred when these expenditures were made by the mayor and his parents.

We recommend the town refrain from having employees and private citizens pay the town's expenses.

2. The Town Of Hamilton Should Refrain From Lending Its Credit

The Town of Hamilton used its credit for the personal benefit of the mayor's father when it purchased a surplus vehicle from the state of Washington on May 25, 1993. This vehicle was purchased for \$3,010 and then licensed in the name of the mayor's father and mother on May 27, 1993. Thus, the town was merely used as a conduit for this financial transaction. In addition, the town did not register the vehicle in its name, pay sales tax on the purchase, or officially surplus the vehicle.

The town paid for this vehicle on June 14, 1993. The mayor's father reimbursed the town the same day with a check issued from a personal account held jointly by the mayor and his father. Since this check was not receipted by the town until July 2, 1993, the mayor's father also received a short-term loan from the town on this transaction.

This vehicle was sold through a vehicle presale process which allows governmental and nonprofit agencies to purchase surplus vehicles from the state at the low blue book price. Since sales to the general public are handled by public auction, the mayor's father received beneficial treatment not available to the general public in the form of a potentially lower purchase cost for the vehicle.

When we initially questioned the mayor about this transaction, he stated that the vehicle was originally purchased for the town by an employee. When the town determined that funds were not available for this purchase, the mayor's father purchased the vehicle so the town would not have to return it to the state. However, the mayor previously admitted to different State Auditor's Office employees that the vehicle purchase had actually been made for his father.

The following criteria apply:

- a. Article VIII Section 5 of the *Constitution of the State of Washington* states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

- b. RCW 40.16.020 prohibits officers from concealing or falsifying any record or paper appertaining to the officer's office.

- c. RCW 42.22.040 states in part:

No officer or employee of a state agency, legislative employee, or other public officer shall use his position to secure special privileges or exemptions for himself or others

- d. The following two laws relate to the code of ethics for municipal officer's contract interests:

RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly

or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office

RCW 42.23.050 states:

Any contract made in violation of the provisions of this act shall be void and the performance thereof, in full or in part, by a contracting party shall not be the basis of any claim against the municipality. Any officer violating the provisions of this act shall be liable to the municipality of which he is an officer for a penalty in the amount of three hundred dollars, in addition to such other civil or criminal liability or penalty as may otherwise be imposed upon him by law.

- e. WAC 236.48.190 which identifies the requirements for state surplus property sales states in part:

Excess and/or surplus property will be offered for sale, transfer, or donation as designated below and according to the following priorities;

- (1) Sale or transfer to state agencies (including state universities and colleges);
- (2) Sale or transfer to other tax-supported educational agencies;
- (3) Sale or transfer to tax-supported agencies, municipalities or political subdivisions within the state of Washington;
- (4) Donation of surplus, tangible personal property to qualified shelters as described in and in accordance with RCW 43.19.1920.
- (5) Sale to the general public including by auction, sealed bid and negotiation.

We recommend the Washington State Office of the Attorney General review this matter and take whatever action is deemed necessary under the circumstances.

We also recommend the Town of Hamilton refrain from lending its credit and providing beneficial treatment to private citizens.

3. The Town Of Hamilton Should Require Adequate Documentation And Publicly Disclose Transactions With Town Officials

The Town of Hamilton expended \$1,448.50 for expenses incurred by the mayor while acting as a private contractor. The mayor was hired by a local realtor to demolish a house during 1994. The mayor employed several town employees and his father on the demolition project. In June 1994, the town reimbursed the mayor \$1,245.50. The basis for the \$1,245.50 reimbursement was the wages the mayor claimed as paid to several town employees and his father. The amounts paid to these employees were not included as payroll by the Town of Hamilton in W-2 statements to the IRS for 1994. For one employee, the mayor claimed \$500 for 71.42 hours worked. While the amount paid was confirmed, this employee was not employed on a hourly basis. The Town of Hamilton also paid \$203 to a short-term employee for work performed on the demolition project. A Town of Hamilton truck was used to transport lumber salvaged from the demolition project. The salvaged lumber was used by the Town of Hamilton and private individuals. Expenditure documentation indicates the town received lumber of an unidentified quantity and quality in exchange for the labor reimbursements.

The minutes of the town council do not reflect any indication of a contract or authorization by the town to have salvaged lumber provided by the town's mayor. The Town of Hamilton does not have a list documenting purchases or contracts with town officials.

The following state laws apply:

a. RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property . . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

b. RCW 42.20.010 prohibits every public officer from employing or using any person, money, ***or property under his official control*** or direction, or in his official custody, for the private benefit or gain of himself or another.

c. RCW 42.20.050 states in part:

Every public officer who, being authorized by law to make or give a certificate or other writing, shall knowingly make and deliver as true such a certificate or writing containing any statement which he knows to be false, in a case where punishment thereof is not expressly prescribed by law shall be guilty of a gross misdemeanor.

d. RCW 42.20.060 states:

Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or

in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

e. RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly, or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein. This section shall not apply in the following cases . . . (6) . . . PROVIDED FURTHER, That in the case of a particular officer of a second class city or town . . . the total volume of such contract or contracts authorized in this subsection may exceed seven hundred fifty dollars in any calendar month but shall not exceed nine thousand dollars in any calendar year: PROVIDED FURTHER, **That there shall be public disclosure by having an available list of such purchases or contracts, and if the supplier or contractor is an official of the municipality, he or she shall not vote on the authorization.** (Emphasis added.)

This situation occurred because the mayor commingled private business and town responsibilities. In addition, by approving the reimbursement to the mayor, the town's clerk/treasurer and council did not identify this transaction as inappropriate and inadequately documented.

As a result of inappropriate documentation and false representations, the town paid \$1,448.50 with an undeterminable benefit to the town and public assets were used for the personal benefit of the mayor.

We recommend the Washington State Office of the Attorney General and the Skagit County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances.

We also recommend the town:

- a. Require adequate documentation of goods or services received for all transactions.
- b. Disclose all transactions with a beneficial interest to the officers of the town as required.
- c. Prevent the use of public assets for personal benefit.

4. The Town Of Hamilton Should Require Adequate Documentation For Expenditure Transactions

Our audit identified several instances of inadequate documentation for expenditure transactions including but not limited to the following:

- a. In October 1993, the mayor purchased a fire truck for \$1,500 and paid state licensing fees of \$131.25. The only documentation supporting these expenditures was a handwritten statement attached to the mayor's claim for reimbursement.

The payment of \$1,500 was confirmed by the seller of the fire truck. On March 15, 1996, the mayor provided a receipt for \$131.25.

- b. In September 1994, the mayor claimed reimbursement for \$222.91 representing one-half of a garbage dumpster at his personal business. Support for this expenditure was limited to a handwritten request. The original invoice was not attached. The logic for charging one-half of the dumpster to the town was not documented.

On March 15, 1996, the mayor provided a receipt for dumpster service provided to the Town of Hamilton for \$445.82.

- c. In September 1994, the mayor received reimbursement for office supplies purchased from his personal business, totaling \$28.43. Support for this expenditure was limited to a handwritten request.

On March 15, 1996, the mayor provided receipts supporting \$27.38 of the amount claimed.

- d. In September 1993, the mayor's mother was reimbursed \$1,000 from the town's museum checking account. No invoice documentation was available to support this expenditure. However, a worksheet was located which identified it as partial payment on numerous purchases made by the mayor's parents for the museum from December 1991 through May 1993 for museum pictures and supplies totaling \$2,130.98.

- e. In July 1995, the mayor's parents were reimbursed \$4,130.98. Documentation for this payment included a billing statement from an outside vendor documenting a \$3,000 down payment made by the mayor's mother for museum history books made in March 1993. The remaining \$1,130.98 was not supported by any receipts. Instead, a handwritten request for reimbursement referred to mailing costs. However, our review determined this payment represented a partial payment on the purchases made by the mayor's parents from December 1991 through May 1993 for pictures and supplies noted in Item d. above.

- f. In May 1993, the town reimbursed a local business owned by a relative of the mayor for office supplies totaling \$182.98. The office supplies, which were not normally sold through this local business, were purchased by the local business for the town. Support for this expenditure was limited to a generic ten-key tape.

On March 15, 1996, the mayor provided receipts supporting the amount claimed.

See also State Finding 3 for another identified instance of inadequate documentation of expenditures.

The following laws apply:

a. RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; **all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction;** all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis added.)

b. RCW 42.24.080 states in part:

All claims presented against any county, city, district, or other municipal corporation or political subdivision by persons furnishing material, rendering services or performing labor, or for any other contractual purpose, shall be audited, **before payment**, by an auditing officer . . . (Emphasis added.)

Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation

The town clerk/treasurer and council did not recognize the importance of requiring adequate documentation prior to authorizing payments. In addition, payments from the museum checking account did not receive normal clerk/treasurer and council review.

As a result of not requiring adequate documentation at the time of payment, there is an increased risk of errors or irregularities occurring without being detected in a timely manner, if at all. In addition, no assurance can be given that all claims paid were just, due, and unpaid obligations of the town.

We recommend the Washington State Office of the Attorney General review this matter and take whatever action is deemed necessary under the circumstances.

We also recommend the town:

- a. Refrain from having private citizens pay the expenses of the town.
- b. Require adequate original documentation before any payment is made.
- c. Formally approve, recognize and disclose any loans received.

5. The Town Of Hamilton Should Improve Internal Controls Over Museum Book Sales

Our review of the internal controls over museum cook book and history book sales identified internal control weaknesses including:

- a. Inadequate records to identify receipts attributable to book sales.
- b. Poor physical control over book inventory.
- c. No reconciliation of receipts received to expected revenue.

The expected revenue from history book sales for 1993-95 were approximately \$9,500. Based on available records, only \$3,400 in receipts have been attributed to history book sales. Other receipts in excess of the difference were deposited in the museum checking account. However, no record was located to document the source of these receipts.

These control weaknesses increase the risk of errors or irregularities occurring without being detected in a timely manner, if at all.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Poor internal controls are attributed to the lack of formal approval for the fund raising project, management of the project by a non-town employee, and the lack of understanding of the importance of establishing controls.

We recommend the town:

- a. Maintain accurate receipt records indicating the source of the funds.
- b. Maintain accurate records of books received, books sold, and disposition of books to different locations.
- c. Maintain good physical control over book inventories to prevent losses.

- d. Perform a physical inventory on a periodic basis (at least yearly) for all locations, reconcile physical inventory to the inventory records, and determine reasons for any differences.
- e. Reconcile books sold to receipts received by the clerk/treasurer for each location, and determine reasons for any differences.

6. The Town Of Hamilton Should Document Billing Activity And Deposit Receipts Intact

Our review of receipts revealed the Town of Hamilton did not deposit at least \$450 in land rental revenues. In addition, our review of internal controls over land rentals identified material weaknesses including:

- a. Lack of written agreements prepared to document rental terms.
- b. No billing records maintained to document amounts owed.
- c. Use of several different receipt books which were not preprinted, prenumbered, or controlled.
- d. Significant time delays from receipt of funds to deposit.

These weaknesses resulted in the loss of at least \$450. They also increase the risk of errors or irregularities occurring without being detected in a timely manner, if at all. Additionally, these weaknesses result in an inability to assign responsibility for identified losses.

The following laws apply:

- a. Article XI, Section 15, Deposit of Public Funds states:

All moneys, assessment and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

- b. RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Internal controls are weak due to limitations on the number of staff and the lack of understanding of the importance of establishing controls.

The town discontinued renting land in 1994.

We recommend the town:

- a. Prepare written agreements for rental or lease transactions.
- b. Maintain billing records for all transactions, record receipts when received, and periodically monitor for delinquent accounts. Any actions taken to collect delinquent accounts or to adjust billings should be documented.
- c. Discontinue the use of all receipt books which are not prenumbered and preprinted for the Town of Hamilton.
- d. Obtain and issue prenumbered, preprinted receipts to all staff who have receipting responsibilities. Records of receipt books issued to staff should be maintained and monitored to ensure all receipts are accounted for by the clerk/treasurer or other designated individual.
- e. All receipts written by town staff should be from the receipt books issued in Item d. above. All receipts should indicate the date funds were received, the person from whom the money was received, what it was for, and the cash/check composition of the receipt.
- f. Receipts should be prepared immediately upon receipt of funds. The first copy should be given to the person submitting the money if receipt is received in person. Receipts should be prepared and exchanged when money is transferred from one employee to another to establish accountability.
- g. All receipts should be deposited intact and in a timely manner.

7. The Town Of Hamilton Should Deposit All Public Moneys In Their Accounts

During the 1991-92 audit conducted in 1993, we recommended the Town of Hamilton close unauthorized checking accounts which were outside of the town's control. (See Finding 1 in the 1991-92 audit report.)

In February 1994, the mayor responded to the audit finding indicating the fire department "has closed all unauthorized bank accounts and turned moneys over to the town clerk."

Our current review confirmed one of the unauthorized bank accounts was closed in December 1993. However, the balance from this account was not deposited with the town clerk. Instead the proceeds were deposited into a bank account previously established in August 1993 at a different bank in the name of the Hamilton Volunteer Fire Department.

The second account was used for fire department fundraising revenue which was subsequently transmitted to the town clerk. The account was then closed and the account balance was transmitted to the town clerk in October 1994.

The new checking account was not subject to council approval or the town's regular system of checks and balances to ensure that all moneys spent were for a legitimate public purpose. No records were maintained or retained for this account except bank statements for three out of fourteen months.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, and other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, **necessary to isolate and prove the validity of every transaction**; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis added.)

By placing public money in an account outside of the town's control, state laws regarding allowability of expenditures are circumvented. Also, the town cannot provide information to verify moneys were spent for public purposes.

Fire department officials indicated the first account was closed in December 1993 due to problems with the bank. The second account was closed to comply with the 1991-92 audit recommendation.

We recommend the fire department deposit all funds received on behalf of or generated from resources of the fire department directly and immediately with the town treasurer.

8. The Town Of Hamilton Should Improve Internal Controls Over Cash Receipts

Due to a suspected loss of funds, the town's mayor requested a review of cash receipting at the Town of Hamilton's fire department in April 1995. Our review identified internal control weaknesses including:

- a. Non-sequential use of burn permits.
- b. Lack of monitoring or tracking of burn permits.
- c. Inconsistent receipting of money when received.
- d. Use of several different receipt books which are not preprinted, prenumbered, or otherwise controlled.
- e. Money was not turned in consistently.
- f. Receipts were not written when moneys were transferred from person to person.

These weaknesses increase the risk of errors or irregularities occurring without being detected in a timely manner, if at all. Our review identified at least \$125 from burn permits issued during 1993-94 which are unaccounted for. Due to inadequate controls, no responsibility for this loss could be assessed.

Article XI, Section 15 of the *Constitution of the State of Washington* states:

All moneys, assessment and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.200 states:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration

of public affairs.

RCW 43.09.240 states in part:

. . . Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible.

Internal controls are weak due to limitations on the number of staff and the lack of understanding of the importance of establishing controls.

As a result of this review, the town changed responsibility for burn permit issuance and receipt to the clerk/treasurer. A fireman is required to sign the burn permit after payment has been received by the clerk/treasurer.

We recommend the town:

- a. Use burn permits sequentially.
- b. Monitor burn permit receipts for missing permit numbers.
- c. Prepare receipts immediately upon receipt of money. The first copy should be given to the person submitting the money if the receipt is received in person. All receipts should indicate the date of receipt, the person from whom money was received, what it is for, and the cash/check composition of the receipt.
- d. Improve controls over receipt books including:
 - (1) Confiscating all receipt books which are not prenumbered and preprinted for the Town of Hamilton.
 - (2) Providing prenumbered, preprinted receipts to all staff with receipting responsibilities.
 - (3) Maintaining a record of receipt books issued to staff.
 - (4) Monitoring the use of receipts to ensure all receipts are remitted to the clerk/treasurer.
- e. Transmit receipts to the clerk/treasurer on a regular basis.
- f. Prepare receipts when money is transferred from one employee to another to establish accountability.

9. The Town Of Hamilton Should Formally Authorize And Disclose Interfund Loans

Our audit identified five unauthorized and undisclosed interfund loans ranging from \$1,000 to \$4,500 which occurred in 1992, 1993, and 1994 from the Street, Water, and Capital Facility Funds to the General Fund. The interfund loans were made by the town's clerk/treasurer to provide adequate cash to meet expenditures incurred. Repayment was intended to be made when grant funding was received. However, as of November 1995, none of the loans have been repaid.

RCW 43.09.210 states:

Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body . . . All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value to the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

The *Budgeting, Accounting and Reporting System* (BARS) manual 1-3-4-1 states:

The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund . . .
4. The term of the loan may continue over a period of more than one year, but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than 3 years will be questioned as a "permanent diversion" of moneys . . .
6. Appropriate accounting records shall be maintained to reflect the balances of loans payable and receivable in every fund affected by such transactions.

In February 1994, the town was informed during the last audit of the requirement to properly authorize interfund loans. However, three of the loans noted above were initiated without formal authorization after that date. Unauthorized interfund loans have continued to occur due to a lack of understanding of the requirements by town officials.

As a result of these undisclosed interfund loans, increased risk exists for poor decisions regarding the setting of rates and fees in the affected funds. As a result of unauthorized interfund loans, there is increased risk for one fund to benefit at the expense of another through lack of loan repayment with interest.

Upon bringing this issue to the town's attention, the Notes to the Financial Statements for January 1, 1993, to December 31, 1994, were amended to include these outstanding loans.

We recommend the town:

- a. Formally approve all future interfund loans by resolution in accordance with the BARS manual.
- b. Prepare repayment schedules and repay all outstanding interfund loans and interest as funding becomes available.

10. The Town Of Hamilton Should Comply With The State Public Records Act

The town received a request from a citizen for copies of ordinances in June 1993. The town charged the citizen \$1.00 per page for making these copies for a total cost of \$347. Our review determined the rate charged for copies did not comply with the state Public Records Act.

In the Declaration of Public Policy, RCW 42.17.010, Paragraph 11 provides:

That, mindful of the right of individuals to privacy and of the desirability of the efficient administration concerning the conduct of government, full access to information concerning the conduct of government on every level must be assured as a fundamental and necessary precondition to the sound governance of a free society.

RCW 42.17.300 states:

No fee shall be charged for the inspection of public records. Agencies may impose a reasonable charge for providing copies of public records and for the use by any person of agency equipment to copy public records, which charges shall not exceed the amount necessary to reimburse the agency for its actual costs incident to such copying.

Further, AGO 1991 No. 6, page 2, states the above statute:

prohibits any agency from imposing a charge for searching for and retrieving public records.

The town does not have any ordinances on copy charges nor was a standard fee charged to all citizens. According to the mayor, the rate of \$1.00 per page was charged to this citizen because too much information was requested, the information was wanted right away, and to deter the citizen from this course of action. Subsequently, the town's attorney advised the town they could not charge more than \$0.10 per copy.

The citizen requested reimbursement from the town in July 1993. The town council has refused to authorize reimbursement.

By charging an excessive rate for copies to selected citizens, the town denies all citizens the right to hold government accountable for their actions and decisions.

We recommend the town charge no more than \$0.15 per page or actual directly related costs for copies in accordance with current state law RCW 42.17.260 which was amended in 1995.

TOWN OF HAMILTON
Skagit County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Federal Findings

1. The Town Of Hamilton Should Comply With Grant Requirements

Our audit determined the town did not obtain building inspection and approval for foundation work performed on the Town Hall/Slipper House. The town issued building permit No. "002" to raise the building. Under the oversight of the mayor, one contractor was hired to raise the building and a second was hired to install the new foundation. In addition, volunteer labor was used to complete the project.

Building permit No. 002 was located in the town files without any building inspection sign offs. The town could not provide any other documentation of inspection or approval for this project. The mayor identified a building inspector who was responsible for approval of this project. However, this inspector denied responsibility and indicated a different building inspector was responsible. The second building inspector, who is no longer employed by the town, indicated the building was not built to code and that he did not approve it.

Funding for this project was received by the Town of Hamilton from the Federal Emergency Management Agency Hazard Mitigation grant, (CFDA 83.516) through the Washington State Department of Community Development/Emergency Management Division (DCD).

Part IV: Special Requirements and Assurances in the grant agreement between the Town of Hamilton (applicant) and DCD (department) states:

The APPLICANT must comply with state and federal law in performing all tasks undertaken with respect to this Grant Agreement. The following sections are set forth for informational purposes, and do not constitute a representation by the DEPARTMENT that they constitute all relevant laws. It is the APPLICANT'S responsibility to comply with all laws

Part 4.26 of the grant agreement states:

The APPLICANT shall comply with the provisions of Chapter 19.27 RCW, Chapter 70.92 RCW and regulations for barrier free facilities adopted by the Washington State Building Code Council pursuant to these statutes.

The state Building Code Act provides for a uniform state building code and mandates counties, cities, and towns to administer and enforce its provisions. Local governments are authorized to modify the state building code to fit local conditions as long as such modifications do not result in a code that is less than the minimum performance

standards and objectives contained in the state code.

The mayor indicated the lack of written approval of the Town Hall/Slipper House project was an oversight.

Due to the absence of written documentation approving the Town Hall/Slipper House project, we are unable to conclude as to whether the project was built in accordance with the State Building Code. This is considered material noncompliance with the grant agreement. As a result of this noncompliance, costs of at least \$36,943.50, including payments to contractors and in-kind volunteer labor claimed attributable to raising the Town Hall/Slipper House, are questioned.

We recommend the town work with DCD to resolve questioned costs of at least \$36,943.50. We further recommend the town obtain necessary inspections and approvals to comply with their grant agreements in the future.

2. The Town Of Hamilton Should Deposit All Public Moneys In Their Accounts

Grants, donations, and book sales revenue were placed in a Town of Hamilton museum checking account. This account was used for purchases and repairs of the town's museum including \$26,162 in expenditures subsequently reimbursed by a federal disaster assistance grant. This checking account was not subject to council approval or the town's regular system of checks and balances to ensure that all moneys received are accounted for and moneys spent were for legitimate public purposes. (See also Finding 4 regarding inadequate documentation of expenditures.)

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, **necessary to isolate and prove the validity of every transaction**; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis added.)

The town was shown as the owner of the museum checking account. The town's clerk/treasurer was a signer on the account. However, museum revenues and expenditures were not included in the town's ledgers. The 1993-94 financial reports were subsequently adjusted to include museum revenue and expenditures.

Town officials contend they were not aware of the need to deposit all public moneys into an account which is monitored by the town's council.

By placing public money in an account outside of the town council's control, state laws regarding monitoring for allowability of expenditures were circumvented. In addition, the town cannot provide information to verify moneys received are accounted for and moneys spent were for allowable public purposes.

The museum checking account was closed in May 1994.

We recommend the town:

- a. Refrain from opening unauthorized bank accounts.
- b. Ensure all bank accounts are included in the town's ledgers.
- c. Process all revenue and expenditure transactions through the town's

accounting system.

- d. Establish a special revenue fund which is authorized by the council, if the town wishes to earmark donations for special purposes.